

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MILAN AREA FIRE DEPARTMENT	County MONROE
Audit Date 6/30/05	Opinion Date 9/15/05	Date Accountant Report Submitted to State: 12/22/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

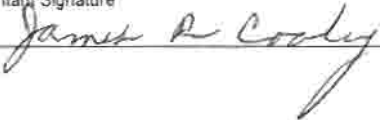
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following: "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS, PLLC			
Street Address ONE SOUTH MONROE STREET		City MONROE	State MI
Accountant Signature 		ZIP 48161	Date 12/14/05

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

ANNUAL FINANCIAL REPORT
June 30, 2005

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

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Independent Auditor's Report

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

We have audited the accompanying basic financial statements of the Milan Area Fire Department as of and for the fiscal year ended June 30, 2005. These basic financial statements are the responsibility of the Milan Area Fire Department Executive Committee. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Milan Area Fire Department as of June 30, 2005 and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Executive Committee
Milan Area Fire Department

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 6 and on page 20, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Cooley Webb
Whelan & Carter

September 15, 2005

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2005

Using this Annual Report

This section of the Milan Area Fire Department Executive Board annual financial report presents the discussion and analysis of the Fire Board's financial performance for the fiscal year ended June 30, 2005. Please read this report in conjunction with the financial statements that follow this section.

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Fire Department.

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Fire Department's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Statement of Revenues, Expenditures and Changes in Fund Balances provides information on the Fire Department's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Fire Department's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2005

Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	<u>Net Assets</u>	
	<u>2005</u>	<u>2004</u>
Current assets	\$397,484	\$342,272
Capital assets, net	<u>439,597</u>	<u>476,618</u>
Total assets	<u>837,081</u>	<u>818,890</u>
Current liabilities	<u>10,339</u>	<u>12,138</u>
Total liabilities	<u>10,339</u>	<u>12,138</u>
Net assets:		
Invested in capital assets	439,597	476,618
Restricted for capital outlay	<u>387,145</u>	<u>330,134</u>
Total net assets	<u>\$826,742</u>	<u>\$806,752</u>
	<u>Changes in Net Assets</u>	
Revenue:		
Charges for services	\$106,176	\$111,671
Operating contributions	219,332	192,657
Capital contributions	45,000	73,000
Grants	2,084	20,973
Other	<u>12,561</u>	<u>6,957</u>
Total revenue	385,153	405,258
Expenses - Fire Department operations	<u>365,163</u>	<u>385,261</u>
Change in net assets	<u>\$ 19,990</u>	<u>\$ 19,997</u>

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2005

The Fire Department as a Whole

- The Milan Area Fire Department was established on July 1, 1980 by an agreement between the City of Milan, London Township, Milan Township, and York Township. The terms of this agreement were replaced with an agreement effective January 1, 2003. This agreement is intended to remain in full force and effect until June 30, 2007.
- The Fire Department's net assets increased by \$19,990 this year compared to \$19,997 in the prior year.
- The Fire Department's primary source of revenue is from contributions received from four different municipalities based on a formula derived from their relative state equalized values, square miles, populations, miles of roadway, and number of dwellings.
- The Fire Department received a Federal grant this year in the amount of \$2,084 from the Federal Emergency Management Administration for reimbursement of losses related to the 2004 blackout. In the prior year the Fire Department received a Federal grant in the amount of \$17,986 and a State grant in the amount of \$2,987.
- Personnel, training and dispatch services continue to be the Fire Department's most significant expense, representing 58 percent of the Fire Department's total expenses. Fewer fire runs and training programs contributed to a decrease of \$13,360.
- Depreciation expense of \$35,402 represents approximately ten percent of the Fire Department's total expenses. The Fire Department upgrades or replaces equipment after inspections indicate it has reached its full useful life or needs to be replaced due to safety issues. In the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance a decrease in total expenses between the prior year and the current year are due primarily to a reduction in small equipment purchases.

Fire Department Budgetary Highlights for 2004-2005

- The 2004-2005 budget reflected a reduction in amounts contributed for equipment purchases and capital outlays from \$65,000 to \$45,000.
- The Fire Department's small equipment purchases include the purchase of new turnout gear and the purchase of new SCBA air breathing equipment.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2005

Fire Department Budgetary Highlights for 2004-2005 (Concluded)

- With the exception for budgeting for capital outlays, there were no variations between the Fire Department's original and final budget. However, there were significant variations between the final budget and actual results for insurance and small equipment of \$9,829 and \$35,624, respectively. These variations were partially offset by the Federal and State Grants received to cover the costs of communications equipment. These variations will not have an effect on the Fire Department's future services or liquidity. As a result of these variations, it was necessary to charge the municipalities an additional \$11,370 to eliminate an excess of expenditures over revenues.

Next Year's Funding (2005-2006)

- Next year's funding will reflect an increase in the amount contributed for equipment purchases from \$15,000 to \$20,000 and capital outlays from \$30,000 to \$210,000.
- The total budgeted operating expenses of \$330,298 will be billed quarterly to the four municipalities based on the percentages derived from current state equalized values, square miles, populations, miles of roadway, and number of dwellings. The percentages for each unit of government are as follows: the City of Milan - 41.73%, York Township - 22.65%, Milan Township - 16.79%, and London Township - 18.83%.
- Any amount of budgeted operating expenses which goes unused will be credited to the municipalities in the beginning of the next fiscal year. Conversely, actual operating expense in excess of operating revenues will be charged to the municipalities in the next fiscal year. Any amounts due to or from the municipalities will be accrued as of the end of the year to eliminate any excess of revenues over expenditures or excess expenditures over revenues.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Current assets:

Cash	\$309,871
Due from other governmental units - local	87,613

Total current assets	397,484
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Noncurrent assets:

Capital assets, net of accumulated depreciation	439,597
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Total assets	\$837,081
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LIABILITIES

Current liabilities:

Accrued payroll	\$10,339
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Total current liabilities	10,339
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Total liabilities	10,339
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NET ASSETS

Invested in capital assets:

City of Milan	183,853
Milan Township	79,917
York Township	110,978
London Township	64,849

Total invested in capital assets	439,597
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Restricted for capital improvement:

City of Milan	163,835
Milan Township	68,739
York Township	94,601
London Township	59,970

Total restricted for capital improvement	387,145
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Total net assets	826,742
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Total liabilities and net assets	\$837,081
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(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

	Program Revenue				Net Revenue and Change in Net Assets
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions		Governmental Activities
Function/Program:	<u>Expenses</u>				
Governmental activities-					
Fire department services/operations	<u>\$365,163</u>	<u>\$106,176</u>	<u>\$221,416</u>	<u>\$45,000</u>	\$7,429
General Revenue:					
Interest					2,711
Donations					600
Other revenue					1,569
Gain on the sale of assets					<u>7,681</u>
Total General Revenue					<u>12,561</u>
Change in Net Assets					19,990
Net Assets - Beginning of Year					<u>806,752</u>
Net Assets - End of Year					<u>\$826,742</u>

(See accompanying notes to financial statements)

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

BALANCE SHEET

June 30, 2005

ASSETS

Cash	\$309,871
Due from other governmental units - local	<u>87,613</u>
Total Assets	<u><u>\$397,484</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accrued payroll	<u>\$10,339</u>
Total Liabilities	10,339

FUND BALANCE

Reserved:

Capital improvement	<u>387,145</u>
Total Fund Balance	<u>387,145</u>
Total Liabilities and Fund Balance	<u><u>\$397,484</u></u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND

RECONCILIATION OF FUND BALANCE TO NET ASSETS

June 30, 2005

Total Fund Balance	\$387,145
Amounts reported in the statement of net assets (page 7) are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds	846,380
Accumulated depreciation on capital assets does not represent a current outflow of resources and therefore is not recorded in the funds	<u>(406,783)</u>
Total Net Assets	<u><u>\$826,742</u></u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2005

Revenues:

Intergovernmental	
Operating contributions	\$219,332
Federal grants	2,084
Charges for services	106,176
Donation	600
Other revenue	1,569
Total Revenues	329,761

Expenditures:

Bookkeeper	15,000
Business meetings, training and mutual aid wages	9,598
Fire run wages	98,081
Officers' wages	16,000
Dispatcher - traffic control	21,631
Payroll preparation	778
Payroll taxes	11,644
Gas and oil	3,082
Supplies-office	3,976
-other	2,679
Audit	4,000
Attorney	918
Medical exams	360
Telephone	1,103
Insurance	34,829
Pagers and cell phones	4,113
Utilities	9,692
Building maintenance	1,115
Vehicle maintenance	10,446
Equipment maintenance	5,849
Radio maintenance	1,344
Equipment check and housekeeping	2,455
Rent	16,205
Training	17,113
Miscellaneous	2,126
Small equipment	35,624
Total Expenditures	329,761

Excess of Revenues over Expenditures	0
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Other Financing Sources:

Intergovernmental capital contributions	45,000
Interest	2,711
Proceeds from sale of assets	9,300
Total Other Financing Sources	57,011

Net Change in Fund Balances	57,011
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Fund Balance - Beginning of Year	330,134
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Fund Balance - End of Year	\$387,145
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(See accompanying notes to financial statements)

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

Net Change in Fund Balance	\$57,011
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation	(35,402)
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Proceeds from the sale of assets are reported as other financing sources on the statement of revenues, expenditures, and changes in fund balance; in the statement of activities the proceeds are netted against the assets book value to arrive at the gain from the sale of assets under general revenues:

Gain from the sale of assets	7,681
Proceeds from the sale of assets	(9,300)
	\$19,990

Change in Net Assets	\$19,990
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(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 1 Reporting Entity

The Milan Area Fire Department was established July 1, 1980 by an agreement dated March 20, 1980 between the City of Milan, London Township, Milan Township, and York Township, all located in the Counties of Monroe and Washtenaw. During May, 1990, the units of government involved in the Milan Area Fire Department signed an Amended Agreement which was effective July 1, 1990. The terms of this Amended Agreement were intended to remain in full force and effect until June 30, 2000. The units of government involved with the Milan Area Fire Department signed a letter to extend the Amended Agreement to June 30, 2003. Effective January 1, 2003, this agreement was replaced with an agreement intended to remain in full force and effect to June 30, 2007. This Agreement provides the means for operating and financing the Milan Area Fire Department. The Fire Department is governed by an Executive Committee consisting of the Chief Executive of each of the participating units together with one additional member of the governing body from each unit. The purpose of the Fire Department is to provide fire protection to the City and Townships in accordance with the authorization of Act 33, Public Acts of Michigan, 1951.

In accordance with the provisions of NCGA Statement 3 and subsequently given authoritative status by the Governmental Accounting Standards Board (GASB) in its Statement 1, the Fire Department is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by NCGA for determining the organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, and special relationships. Oversight responsibility considers the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public services. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens. On this basis, the financial statements of certain other entities are not included in the financial statements of the Milan Area Fire Department.

Note 2 Summary of Significant Accounting Policies

The accounting policies of the Milan Area Fire Department conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Fire Department's overall financial position and results of operations

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued)

- Financial statements prepared using full accrual accounting for all of the Fire Departments activities

- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

- A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- The financial statements of the Fire Department are prepared in accordance with accounting principles generally accepted in the United States of America. The Fire Department's reporting entity applies all relevant GASB pronouncements. The Fire Department also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Fire Department's basic financial statements include both government-wide (reporting the Fire Department as a whole) and fund financial statements. Both statements categorize primary activities as governmental only. The Fire Department does not have any business-type activities.

Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. *Governmental activities* normally, are supported by intergovernmental revenues.

The Statement of Net Assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligation. The Fire Department's net assets are reported in two parts - invested in capital assets, and restricted for capital improvement. The Fire Department did not have any long term debt or obligations during 2004 - 2005.

The Statement of Activities demonstrates the degree to which the expenses of the Fire Department are offset by revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) Charges to local units who use or directly benefit from goods, services, or other privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and donations are not included among program revenues but are properly reported as general revenues.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

The operations of the Milan Area Fire Department are accounted for in one general fund with its own set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

GOVERNMENTAL FUNDS

General Fund - The General fund is the general operating fund of the Fire Department. It is the only fund used to account for all financial resources and is presented as a major fund.

- B. Deposits
The Fire Department has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.
- C. Receivables
All receivables are recorded net of any uncollectible amounts.
- D. Capital Assets
Capital assets are defined by the Fire Department as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment	5 - 15 years
Vehicles	20 years

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Concluded)

E. Budget

A budget is adopted by the Fire Department Executive Committee. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The executive committee is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Appropriations unused at June 30, are not carried forward to the following fiscal year. Any budgeted operating expenses that are unused are credited to the various governmental units at the beginning of the next fiscal year.

F. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Note 3 Deposits

Statutes authorize the Fire Department to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. Banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposits with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds may not be deposited in financial institutions located in states other than Michigan.

The Fire Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Fire Department evaluates each financial institution with which it deposits Fire Department funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Milan Area Fire Department Executive Board has adopted an investment policy and has authorized three depositories: Bank One, N.A., Monroe Bank & Trust, and Standard Federal Bank.

Interest rate risk. The Fire Department's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Fire Department will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the Fire Department's investment policy.

Concentration of credit risk. The Fire Department does not have limits on the amount the Fire Department may deposit in any one issuer.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 3 Deposits (Concluded)

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned or the Fire Department will not be able to recover the collateral securities in the possession of an outside party. The Fire Department has \$322,648 invested in certificates of deposits, checking accounts, savings accounts, and money markets. The Fire Department's deposits are insured by the FDIC in the amount of \$268,211, with uninsured deposits of \$54,437. The Fire Department's deposits are at institutions with an established record of fiscal health and service. The Fire Department board approves and designates a list of authorized depository institutions. The Fire Department's policy does not address deposit risk.

The following is a summary of these deposits:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Category 1:		
FDIC insured	\$255,434	\$268,211
Category 3:		
Uninsured and uncollateralized	<u>54,437</u>	<u>54,437</u>
	<u>\$309,871</u>	<u>\$322,648</u>

Foreign currency risk. The Fire Department is not authorized to invest in investments which have this type of risk.

Note 4 Capital Assets

The following is a summary of the changes in capital assets of the Fire Department for the fiscal year ended June 30, 2005:

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
Equipment	\$ 49,406	\$ -	\$ -	\$ 49,406
Vehicles	<u>866,419</u>	<u>-</u>	<u>(69,445)</u>	<u>796,974</u>
	915,825	-	(69,445)	846,380
Less: Accumulated Depreciation	<u>439,207</u>	<u>35,402</u>	<u>(67,826)</u>	<u>406,783</u>
Net Capital Assets	<u>\$476,618</u>	<u>\$(35,402)</u>	<u>\$ (1,619)</u>	<u>\$439,597</u>

Depreciation is recorded using the straight-line method over 5 to 15 years for equipment and 20 years for vehicles.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

Note 5 **Intergovernmental Contributions**

The Fire Department receives a substantial amount of its revenue in the form of operating and capital contributions from the participating municipalities. The amount of these contributions are calculated annually on a predetermined percentage basis of the Fire Department's budget. These percentages are calculated on the basis of State Equalized Value (70%), service area in acres (5%), population as determined by latest decennial census (10%), miles of roads (5%), and dwelling units, commercial units, industries, schools, and churches (10%).

The following is a summary of amounts billed to the local municipalities for the 2004 - 2005 fiscal year:

<u>Unit</u>	<u>Percentages</u>	<u>Operating Contributions</u>	<u>Capital Contributions</u>
City of Milan	43.83%	\$ 96,021	\$19,724
Milan Township	16.41%	36,083	7,384
London Township	18.13%	39,636	8,158
York Township	21.63%	<u>47,592</u>	<u>9,734</u>
		<u>\$219,332</u>	<u>\$45,000</u>

Note 6 **Lease**

The Milan area Fire Department leases the fire station from the City of Milan. Under the lease, the Fire Department shall assume and pay all expenses necessary for the operation of the fire station. Rent expense for the fiscal year ended June 30, 2005 was \$16,205. This lease is in effect until June 30, 2007.

Note 7 **Dispatching Services**

The City of Milan provides dispatching services for the Milan Area Fire Department. Dispatching expense for the fiscal year ended June 30, 2005 was \$21,631.

Note 8 **Fund Balance-Reserved for Capital Improvement**

Any fund balance not otherwise reserved has been set aside by the Executive Committee as Reserved for Capital Improvement.

Note 9 **Risk Management**

The Milan Area Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries for which the Fire Department carries commercial insurance.

Note 10 **Related Party Transaction**

As stated in Note 5 and Note 6, the Fire Department leases the fire barn and obtains dispatching services from the City of Milan. The City of Milan maintains an ownership interest in the Fire Department.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

Note 11 **Excess of Expenditures Over Appropriations**

	<u>General Fund</u>
Appropriations	\$314,166
Expenditures	<u>329,761</u>
Excess Expenditures	\$ <u>15,595</u>

REQUIRED SUPPLEMENTAL INFORMATION

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE**

For the Year Ended June 30, 2005

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
Operating contributions	\$204,166	\$204,166	\$219,332	\$15,166
Federal grants	0	0	2,084	2,084
Charges for services	110,000	110,000	106,176	(3,824)
Donation	0	0	600	600
Other revenue	0	0	1,569	1,569
Total Revenues	<u>314,166</u>	<u>314,166</u>	<u>329,761</u>	<u>15,595</u>
Expenditures:				
Bookkeeper	15,000	15,000	15,000	0
Business meetings, training	9,000	9,000	9,598	(598)
Fire run wages	110,000	110,000	98,081	11,919
Officers' wages	16,000	16,000	16,000	0
Dispatcher - traffic control	21,631	21,631	21,631	0
Payroll preparation	800	800	778	22
Payroll taxes	11,400	11,400	11,644	(244)
Gas and oil	4,000	4,000	3,082	918
Supplies-office	4,000	4,000	3,976	24
-other	4,500	4,500	2,679	1,821
Audit	2,800	2,800	4,000	(1,200)
Attorney	500	500	918	(418)
Medical exams	2,000	2,000	360	1,640
Telephone	2,000	2,000	1,103	897
Insurance	25,000	25,000	34,829	(9,829)
Pagers and cell phones	4,830	4,830	4,113	717
Utilities	9,900	9,900	9,692	208
Building maintenance	2,500	2,500	1,115	1,385
Vehicle maintenance	10,000	10,000	10,446	(446)
Equipment maintenance	9,000	9,000	5,849	3,151
Radio maintenance	3,500	3,500	1,344	2,156
Equipment check and housekeeping	2,400	2,400	2,455	(55)
Rent	16,205	16,205	16,205	0
Training	25,000	25,000	17,113	7,887
Miscellaneous	2,200	2,200	2,126	74
Small equipment	0	0	35,624	(35,624)
	<u>314,166</u>	<u>314,166</u>	<u>329,761</u>	<u>(15,595)</u>
Excess of Expenditures over Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources(Uses):				
Intergovernmental capital contributions	65,000	45,000	45,000	0
Interest	0	0	2,711	2,711
Proceeds from sale of assets	0	0	9,300	9,300
Capital outlay	(65,000)	(45,000)	0	45,000
	<u>0</u>	<u>0</u>	<u>57,011</u>	<u>57,011</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>57,011</u>	<u>57,011</u>
Fund Balance - Beginning of Year	<u>330,134</u>	<u>330,134</u>	<u>330,134</u>	<u>0</u>
Fund Balance - End of Year	<u>\$330,134</u>	<u>\$330,134</u>	<u>\$387,145</u>	<u>\$57,011</u>



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Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

Dear Members of the Executive Committee:

We have audited the basic financial statements of the Milan Area Fire Department, Milan, Michigan, as of June 30, 2005 and for the fiscal year ended and have issued our report thereon, dated September 15, 2005.

In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

Small Equipment Purchases

It was noted during our audit that several pieces of small equipment had to be replaced. These expenditures were classified as small equipment purchases because they did not exceed the fire departments threshold of \$5,000 for being depreciated as a capital asset.

Operating Expenses Billed

It was also noted during our audit that actual operating expenses (excluding capital outlays) in the amount of \$329,761 exceeded the budgeted operating expenses in the amount of \$314,166. The Fire Department was not under budget and therefore, the municipalities will be billed a total of \$11,370 to eliminate the excess of expenditures over revenues.

It has been a pleasure to serve you and we appreciate the cooperation we received during the audit. If you have any questions concerning the audit report or this letter, please contact us.

Very truly yours,

Cooley Hehl
Wohlgamuth & Carlton

September 15, 2005